

HEARING
before the
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
on
DOD Financial Management

Tuesday, April 12, 1994
9:30 a.m.
Room 342 of the Dirksen Senate Office Building

W I T N E S S L I S T

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The Honorable Charles E. Grassley
United States Senator (R-IA)

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PANEL I:

The Honorable Charles Bowsher
Comptroller General
United States General Accounting Office

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PANEL II:

Derek Vander Schaaf
Acting Inspector General
Department of Defense

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PANEL III:

The Honorable John Hamre
Comptroller and Chief Financial Officer
Department of Defense

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Senator John Glenn

News Release

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OPENING STATEMENT OF SENATOR JOHN GLENN
Chairman, Governmental Affairs Committee
on
Defense Financial Management Hearing
April 12, 1994

Good morning. Today the Governmental Affairs Committee meets to examine progress made by the Defense Department in improving its financial management practices and systems.

I know this sounds like a topic that could empty a room in a hurry, but whether or not the Pentagon makes progress in this area has an enormous impact on how the government operates, and on how Americans view their government. We all know that over the years stories of Pentagon waste, fraud and abuse have given Americans a rather negative view of how their taxdollars are spent. Unfortunately, today's hearing is not going to improve that image very much.

This committee has held many hearings over the years on how the Defense Department was managing its inventory, controlling its assets and accounting for taxdollars. We passed laws like the Inspector General Act and the Chief Financial Officers Act to improve those areas -- so now, Congress and the public can get a clear understanding of how agencies are managing and spending money. And in all candor, I must say that, until recently, those hearings were often an exercise in futility: it was like sailing paper airplanes off into the Grand Canyon -- people would sit in this room and promise action, and then those actions would vanish without a trace.

I have been pleasantly surprised, however, with changes made in the last few months. And while we have not even begun to turn the corner on the complex and often daunting financial management problems at the Pentagon, I am encouraged by the emphasis that the leadership of the Department is giving to these important issues. For years, the Pentagon spent its time downplaying both the importance of financial management and the scope of the problems themselves. Never mind trying to solve them.

Today, on issues of financial accountability and stewardship, we see a refreshing candor coming out of the Pentagon, and a great deal of energy and initiative on the part

of people like Defense Secretary Perry and Comptroller Hamre -- who are trying to get a handle on these problems and find solutions that work. Obviously, many of these problems have been festering for years, even decades. As I think they already know, the new leaders have inherited a culture of neglect.

Make no mistake, fixing Defense financial management problems will not be easy, even when you have leadership that is committed to doing it. If nothing else, the audit work being presented here this morning by the General Accounting Office and the Pentagon Inspector General confirms just how extensive these problems remain.

A few examples will prove my point:

- o At our hearing on Defense financial management last July, the GAO revealed that contractors had returned to the government \$751 million in overpayments for the first six months of fiscal 1993. That number has since increased, to \$1.4 billion for the first nine months of fiscal 1993. These were payments for which contractors had never sent a bill. At that hearing the Pentagon assured us that those payments were the result of issued demand letters -- in other words, that they knew about these overpayments and were recovering them -- but a GAO report we are releasing this morning shows that in almost every case examined, the contractor told the government about the overpayment. GAO is now doing followup work for the committee, and asking a very important question: how much is owed the government in overpayments that contractors haven't returned?
- o Another example: last July, as part of the first-ever audit of the Army as required under the CFO Act, GAO told the committee that the Army had overpaid by \$6 million some 2,200 soldiers -- including deserters, prisoners and ghosts, who were created through fraud by people with access to payroll and personnel systems. This morning, the GAO tells us that while some progress has been made to tighten up these systems, further investigation has found that the Army sent out about \$8 million in unauthorized pay, that 76 deserters continued to receive pay after they went AWOL, and that six ghosts were created by four employees. I would note with some incredulity that one of these ghosts had a rather good career in the Army: he was deployed to Southwest Asia and promoted six ranks to a sergeant first class!
- o In the payroll area, I am also concerned with the impact of some mistakes made by the Defense Finance and Accounting Service in its efforts to comply with a

Congressional directive forgiving Desert Shield/Desert Storm veterans from certain debts. The Inspector General tells us that DFAS in many cases forgave the wrong soldiers and the wrong debts, including debts due to fraud and misrepresentation. About 75 percent of the debts forgiven by the Indianapolis finance center were to the wrong soldiers and the wrong debts -- \$15 million of the \$20 million they forgave.

- o One final example is the extensive problem the Pentagon has with paying its bills. Recent audit work done by the GAO and the IG indicates that the Defense Department has between \$32 billion and \$41 billion in what are called unmatched disbursements -- which means that checks have been written without their first being matched to bills. It's as if you and I paid our credit card bill without first seeing what the charges were for. In my opinion, this is unacceptable, and it is no wonder that, as a result, we continue to see crazy cases of fraud. Just recently, a former Navy Sealift employee plead guilty to stealing \$3 million over four years. He submitted 114 invoices for machinery parts he never delivered and the Navy and DFAS paid 108 of them -- they even told him how to fill out the paperwork.

Unfortunately, I could go on and on with examples. The bottom line is that there is a lot of work to be done at the Pentagon, and it has needed to be done for a long time. This neglect also means that many of the hundreds of information systems at the Pentagon are in desperate need of overhaul and consolidation. We are releasing a second GAO report this morning which shows that progress in the Corporate Information Management initiative, designed to streamline and re-engineer these systems, has met with only limited success.

Besides the waste, fraud and abuse that continue every day the financial problems are not fixed and the systems are not overhauled, I am worried that our good-intentioned leadership at the Pentagon will not stick around. The average tenure of political appointees in government is not very long -- 30 percent are gone in 18 months and 50 percent are gone in 27 months. Then we will be back to business -- or should I say bad business -- as usual.

And so, while I applaud the first steps that the Pentagon is taking -- and they are very important steps -- what I am hearing from the GAO and the IG leaves me a bit dismayed about the Defense Department's progress in financial management. From the beginning of the CFO Act, and even before it, this committee has played an important role in strengthening the government's financial stewardship -- and we will continue to do so. That

stewardship is critical to an efficient, effective and credible government.

I want to welcome our witnesses here this morning. First, we will hear from Senator Charles Grassley, who I know shares this committee's concerns about financial management progress at the Pentagon. Then Charles Bowsher, Comptroller General of the United States, and a frequent witness before this committee, will discuss the two reports we are releasing this morning, and give us his impressions of progress at the Pentagon. He will be followed by Derek Vander Schaaf, acting Inspector General of the Department of Defense, who in the last month has released several quite critical reports on financial management. Finally, but certainly not least, we will hear from John Hamre, the very capable Comptroller and CFO of the Department of Defense, who I hope will share with us his plans for strengthening the Pentagon's financial management.

Thank you.